

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06  
AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03  
CIEP-01 LAB-04 SIL-01 OMB-01 AGRE-00 /098 W  
----- 093003 /44

R 220910Z DEC 76  
FM AMEMBASSY BUDAPEST  
TO SECSTATE WASHDC 7587  
AMEMBASSY MOSCOW  
AMCONSUL MUNICH  
USMISSION NATO  
AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
AMEMBASSY VIENNA  
AMEMBASSY WARSAW  
USDEL MTN GENEVA

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E.O. 11652: N/A  
TAGS: EGEN, ETRD, EAGR, HU  
SUBJECT: HUNGARY: 1976 ECONOMIC RESULTS AND 1977 PLANS

MUNICH FOR RFE

1. SUMMARY: IN A SERIES OF YEAR-END SPEECHES HUNGARY'S  
LEADERSHIP HAS CONFIRMED THAT THE ECONOMIC TRENDS ESTAB-  
LISHED EARLIER IN THE YEAR HAVE CONTINUED. DUE TO  
UNEXPECTED SHORTFALLS IN AGRICULTURAL PRODUCTION, INDUS-  
TRIAL OUTPUT AND NATIONAL INCOME RESULTS ARE LOWER THAN  
PLANNED. NONE OF THE AGRICULTURAL PROBLEMS WERE  
CATASTROPHIC, BUT TAKEN TOGETHER THEY COMBINED TO HAMPER  
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ECONOMIC PERFORMANCE. PARTY SECRETARY KADAR, DEPUTY  
PRIME MINISTER HUSZAR AND OTHER HAVE EMPHASIZED THAT:

A. CONSUMER PRICES WILL CONTINUE TO RISE (ALTHOUGH  
MORE SLOWLY) IN ORDER TO LESSEN BUDGET SUBSIDIES AND  
REFLECT MORE ACCURATELY THE COST OF INPUTS;

B. CONSUMER INCOME GROWTH WILL BE LESS THAN IT WAS DURING THE FOURTH FIVE-YEAR PLAN TO PERMIT RESOURCES TO BE USED FOR THE MODERNIZATION OF HUNGARY'S PRODUCTION STRUCTURE;

C. FUTURE GROWTH MUST COME THROUGH INCREASES IN PRODUCTIVITY; THERE WAS NO SIGNIFICANT IMPROVEMENT IN 1976;

D. HUNGARY CAN REASONABLY EXPECT TO COMPENSATE IN 1977 FOR THE 1976 AGRICULTURAL SHORTFALL;

E. THE FOREIGN TRADE SITUATION HAS IMPROVED SOMEWHAT, ESPECIALLY WITH THE WEST, BUT A HIGHER LEVEL OF HARD CURRENCY EXPORTS IS VITAL; AND

F. WITH THE EXCEPTION OF MEASURES ALREADY TAKEN TO STIMULATE THE PRODUCTION OF FRUIT, VEGETABLES AND PORK ON COOPERATIVES AND PRIVATE PLOTS, ECONOMIC REGULATORS WILL NOT CHANGE DRASTICALLY IN 1977. SOME MODIFICATIONS ARE PLANNED CONCERNING WAGES, BUT THE NEM HAS WORKED WELL AND WILL CONTINUE TO FUNCTION MUCH AS IT HAS IN THE PAST. END SUMMARY

2. IN A MAJOR SPEECH TO THE TRADE UNION COUNCIL DECEMBER 10, DEPUTY PRIME MINISTER HUSZAR PAID TRIBUTE TO THE "UNDERSTANDING" OF THE HUNGARIAN PEOPLE DURING A PERIOD OF ECONOMIC DIFFICULTY (IN OBVIOUS CONTRAST TO POLAND). HE EMPHASIZED THAT GROWTH IN CONSUMER INCOME, LIMITED OFFICIAL USE

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WHICH SHOULD DOUBLE IN 1977, WILL NOT KEEP PACE WITH THE RATE IT MAINTAINED DURING THE 1971-1975 PERIOD.

3. HUSZAR POINTED OUT THAT DUE TO AGRICULTURAL PROBLEMS CONSUMER INCOME (AND INDUSTRIAL PRODUCTION) INCREASES WERE LESS THAN PLANNED IN 1976. EVEN WITHOUT AN EXCEPTIONAL YEAR, HE SAID, HUNGARY SHOULD BE ABLE TO COMPENSATE FOR THE 1976 PROBLEMS DURING 1977. HUSZAR REMINDED HIS LISTENERS THAT THE MODERNIZATION OF THE COUNTRY'S PRODUCTION STRUCTURE IS THE PRIME PRE-REQUISITE FOR IMPROVING ITS FOREIGN TRADE BALANCE.

4. HUSZAR ADDRESSED THE NEM, NOTING THAT PROPOSED "CORRECTIONS" TO THE ECONOMIC REGULATORS WILL BE MUCH LESS SIGNIFICANT THAN THEY WERE IN 1976. HE ASKED THAT THE TRADE UNIONS SUPPORT THE GOVERNMENT'S EFFORTS TO SHIFT LABOR RESOURCES TO SECTORS WHERE THEY ARE NEEDED, AND ALSO ASKED FOR SUPPORT IN THE GOVERNMENT'S ATTEMPT

TO GIVE HIGHER WAGES TO THOSE "WHO WORK BETTER AND WHO HOLD THEIR OWN, EVEN UNDER DIFFICULT CONDITIONS". HE ALSO NOTED THAT WAGES WILL BE SOMEWHAT MORE DIFFERENTIATED.

5. ACCORDING TO PRESS REPORTS, CHANGES TO THE ECONOMIC REGULATORS IN 1977 WILL BE LIMITED PRIMARILY TO THOSE AFFECTING VEGETABLE AND FRUIT PRODUCTION (BUDAPEST A-86) AND HOUSEHOLD PLOT PRODUCTION OF PORK (BUDAPEST 1718). OTHER MAJOR MODIFICATIONS INCLUDE INCREASED USE OF DOUBLE AND TRIPLE PAY FOR CERTAIN "SHIFT" EMPLOYEES. THE BASIC 1-1/2 PERCENT ANNUAL WAGE INCREASE WILL CONTINUE (SUPPLEMENTED BY AN AVERAGE 4-1/2 PERCENT GAIN FROM ENTERPRISE FUNDS), AND A NEW POLICY REQUIRES THAT ENTERPRISES ABSORB THE COST OF THE FIRST THREE DAYS OF EMPLOYEES' "SICK PAY". THIS LATTER MEASURE INSURES THAT MINOR REQUESTS FOR "SICK PAY" COME FROM COMPANY FUNDS, NOT THE CENTRAL BUDGET, AND SHOULD HELP TO REDUCE LIMITED OFFICIAL USE

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ABSENTEEISM.

6. PARTY SECRETARY KADAR ADDRESSED THE THIRD CONGRESS OF AGRICULTURE PRODUCER COOPERATIVES ON DECEMBERNUASIJBI AFTER PAYING THE USUAL RESPECTS TO THE COOPERATIVE MOVEMENT HE ASKED FOR INCREASED COORDINATION BETWEEN COOPERATIVES AND THEIR ASSOCIATED HOUSEHOLD PLOTS, THUS ENABLING MEMBERS ON A CONTRACTUAL BASIS TO "REAR AND FATTEN LIVESTOCK AND GROW FRUIT AND VEGETABLES ON THEIR HOUSEHOLD PLOTS". HE ALSO TOOK NOTE OF THE RECENT "EXCESSES" OF AGRICULTURAL CO-OPS EXPANSION INTO NON-AGRICULTURAL AREAS, DECRIED THE LOW MANAGEMENT STANDARDS AND REITERATED ONCE AGAIN THE NOW FIRMLY ESTABLISHED POLICY THAT "COOPERATIVDPPPROPERTY IS SOCIALIST PROPERTY".

7. KADAR POINTED OUT THAT STATE CONTROLS AND GUIDANCE HAVE NOT BEEN ABLE TO KEEP PACE WITH THE GROWING STRENGTH OF COOPERATIVES, AND STATED THAT IN THE FUTURE STATE ORGANS ("GUIDANCE BODIES") WILL BETTER COORDINATE THE WORK OF PRODUCER CO-OPS.

8. ADDRESSING THE NEM, KADAR SAID THAT "THE MEANS OF ECONOMIC REGULATION ARE SATISFACTORY AND REQUIRE NO FUNDAMENTAL MODIFICATION". HE DISCUSSED EARLIER-ANNOUNCED STEPS TAKEN TO ENCOURAGE FRUIT, VEGETABLE AND PIG PRODUCTION.

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L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06  
AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03  
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R 211551Z  
FM AMEMBASSY BUDAPEST  
TO SECSTATE WASHDC 7588  
AMEMBASSY MOSCOW  
AMCONSUL MUNICH  
USMISSION NATO  
AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST (BY POUCH)  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
AMEMBASSY VIENNA  
AMEMBASSY WARSAW  
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9. TURNING TO THE ECONOMY, KADAR REPORTED THAT AGRICULTURAL PRODUCTION IN 1976 WILL ONLY EQUAL THE 1975 LEVEL, PRIMARILY DUE TO A LATE SPRING, TWO LATE FROSTS AND THE DROUGHT. NOTING THE IMPROVED SITUATION IN PORK SUPPLY AND MILK YIELDS, HE DID SAY THAT MAJOR PROBLEMS HAD STILL NOT BEEN OVERCOME, I.E., HIGHER PRODUCTIVITY IS NECESSARY.

10. THE HUNGARIAN COUNCIL OF MINISTERS REPORT ON FULFILLMENT OF THE 1976 PLAN (TOGETHER WITH PARLIAMENTARY SPEECHES DECEMBER 16 BY POLITURO MEMBER NEMETH AND FINANCE MINISTER FALUVEGI) POINTED OUT THAT:  
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A. NATIONAL INCOME ROSE ONLY 4 PERCENT, INDUSTRIAL

OUTPUT SOMEWHAT LESS THAN 5 PERCENT;

B. DESPITE A SUCCESSFUL WHEAT CROP, THE HOPED-FOR 4 PERCENT INCREASE IN AGRICULTURAL PRODUCTION HAD NOT BEEN ATTAINED. INSTEAD, OUTPUT WAS THE SAME AS IN 1975;

C. CONSUMER PRICES ROSE SOMEWHAT MORE THAN EXPECTED, BY A TOTAL OF 5 PERCENT; AND

D. INVESTMENTS INCREASED AS PLANNED, BY 14 PERCENT.

11. THE KEYNOTE SPEAKER FOR THE OPENING OF THE WINTER PARLIAMENT SESSION WAS POLITBURO MEMBER AND CENTRAL COMMITTEE SECRETARY KAROLY NEMETH. NEMETH REPORTED BY LBN THE MOST SIGNIFICANT ECONOMIC ACHIEVEMENTS DURING 1976; STATED THAT (AS PLANNED) CONSUMPTION IS INCREASING TO A SMALLER EXTENT THAN OVERALL NATIONAL INCOME; AND NOTED THAT THE STANDARD OF LIVING IS GROWING EVEN MORE SLOWLY THAN INTENDED, DUE TO HIGHER CONSUMER PRICES AND AGRICULTURAL PROBLEMS. IN ADDITION TO OUTSIDE FACTORS, NEMETH ADMITTED THAT QTE IT IS A FACT THAT THE STANDARD AND DISCIPLINE OF MANAGEMENT AND THE EXECUTION OF WORK IS OFTEN BELOW REQUIREMENTS, AND WE CAN ONLY BLAME OURSELVES FOR THIS UNQTE.

12. HE MADE THE SAME POINTS ABOUT THE NEM AS HAD KADAR AND HUSZAR, AND WITH CUSTOMARY HUNGARIAN AMBIVALENCE EXPLAINED THAT IT WAS NECESSARY SIMULTANEOUSLY TO STRENGTHEN BOTH CENTRAL DIRECTION AND LOCAL INDEPENDENCE AND RESPONSIBILITY. INDEPENDENT DECISION MAKING AND LOCAL INITIATIVE ARE REQUIRED, HE SAID, AND MINISTRIES SHOULD NOT INTERFERE UNNECESSARILY, BUT SHOULD INSURE THAT ENTERPRISE PLANS ARE IMPLEMENTED QTE LIMITED OFFICIAL USE

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IN HARMONY WITH THE DEMANDS OF NATIONAL ECONOMIC PLANNING UNQTE. NEMETH ANNOUNCED THAT PER CAPITA REAL INCOME SHOULD RISE BY 3-1/2 TO 4 PERCENT IN 1977, COMPARED TO THE 1 TO 1-1/2 PERCENT INCREASE IN 1976. IN ORDER TO ACCOMPLISH THIS, AGRICULTURAL PRODUCTION WILL HAVE TO GROW BY 7-8 PERCENT IN 1977.

13. MEMETH, AS DID FOREIGN TRADE MINISTER BIRO IN A LATER SPEECH, STATED THAT NON-RUBLE EXPORTS SHOULD RISE BY 18 PERCENT IN 1977. ACCORDING TO BIRO, HARD-CURRENCY IMPORTS WILL INCREASE BY ONLY 8 PERCENT.

14. FINANCE MINISTER FALUVEGI'S PARLIAMENTARY REPORT WAS PACKED WITH STATISTICS AND DETAIL. HE, AS HAVE

OTHERES, POINTED OUT THAT IN ORDER FOR THE FIFTH FIVE-YEAR PLAN TO SUCCEED HUNGARY MUST BE ON TARGET BY THE END OF 1977, AND THAT INDUSTRIAL PRODUCTION WILL CONSEQUENTLY HAVE TO INCREASE BY 6 PERCENT. FALUVEGI ADMITTED THAT THE HIRING FREEZE ON ADMINISTRATIVE PERSONNEL HAD THE UNDERSIRABLE SIDE EFFECTS OF PROHIBITING THE EMPLOYMENT OF YOUNDER EXPERTS AND OBSTRUCTING WORKERS FROM CHANGING WORK PLACES. SUCH CHANGE IS FREQUENTLY IN THE INTERESTS OF THE ECONOMY, HE NOTED, AS HUNGARY ALTERS ITS PRODUCTION STRUCTURE. THE BAN HAS BEEN REPLACED BY A NEW DECREE CALLING FOR A REDUCTION OF 5 PERCENT IN THE STAFFS OF ADMINISTRATIVE BODIES AND COMPANIES WHICH DO NOT REPORT DIRECTLY TO A MINISTRY.

15. FALUVEGI SAID THAT MOST MAJOR INVESTMENTS IN 1977 WOULD BE IN THE ENERGY FIELD. HE ALSO ANNOUNCED THAT THE HUNGARIAN NATIONAL BANK HAD SO FAR APPROVED CREDITS TOTALING 30 BILLION FORINTS UNDER THE SPECIAL 45 BILLION FORINT FUND ESTABLISHED TO PROVIDE INVESTMENTS DIRECTLY RELATED TO EXPORTS.

14. COMMENT: THE TRENDS ELABORATED IN THIS SUDDEN LIMITED OFFICIAL USE

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FLURRY OF HIGH-LEVEL ATTENTION TO THE ECONOMY WERE WELL ESTABLISHED BY MID-YEAR. IF OVERALL AGRICULTURAL OUTPUT, AFTER A SERIES OF MISFORTUNES, DID NOT ACTUALLY DECLINE IN 1976 IT IS REASONABLE TO EXPECT THAT 1977 WILL BE BETTER. SEVERAL NEW MAJOR INVESTMENTS HAVE BEEN COMPLETED OR WILL BE IN THE NEAR FUTURE, AND AS HUNGARIAN ENTERPRISES AND MANAGERS MOVE INTO THE SECOND YEAR OF THE FIVE-YEAR PLAN THEIR DECISIONS WILL BE MADE WITH MORE CERTAINTY AND MORE INFORMATION. IT IS ESTIMATED THAT THE CHANGES IN THE ECONOMIC REGULATORS, AS PLANNED, CUT ENTERPRISE INCOME BY ALMOST 30 PERCENT. IF THESE RESOURCES CAN BE CHANNELED TO PRODUCTIVE ENDS IT IS NOT UNREASONABLE TO EXPECT HUNGARY TO BE ON TARGET BY THE END OF 1977.  
MUDD

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## Message Attributes

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